

Message Text

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PAGE 01 BRASIL 05557 061939Z

ACTION EB-07

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 AGRE-00 CIAE-00

COME-00 INR-07 LAB-04 NSAE-00 EPG-02 SP-02 STR-04

TRSE-00 FRB-03 OMB-01 /066 W

-----074271 070218Z /64

R 061900Z JUL 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 2596

INFO AMEMBASSY LONDON

AMEMBASSY BOGOTA

AMEMBASSY MEXICO

USMISSION GENEVA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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EO 11652 NA

TAGS EAGR EPAP ICO BR

SUBJECT: DIVERGENT VIEWS ON BRAZILIAN DOMESTIC COFFEE CONSUMPTION

REF: BRASILIA 4187

1. SUMMARY. PRESS HAS REPORTED DURING THE PAST WEEK AN INTERESTING DIVERGENCE OF OPINION ON WHAT THE GOB POLICY TOWARD DOMESTIC COFFEE CONSUMPTION SHOULD BE IN LIGHT OF THE CONFLICTING (AT LEAST UNTIL BRAZILIAN COFFEE PRODUCTION RETURNS TO ITS PRE-FROST LEVELS) GOALS OF MAXIMIZING EXPORTS AND STIMULATING DOMESTIC CONSUMPTION. END SUMMARY.

2. ON THE ONE SIDE ARE THE FORCES WHICH ARGUE FOR LOWER DOMESTIC COFFEE CONSUMPTION IN ORDER TO FREE MORE COFFEE FOR EXPORT. THE IBC ITSELF RECENTLY LAUNCHED A RADIO AND TELEVISION ADVERTISING CAMPAIGN AIMED AT CONVINCING THE BRAZILIAN COFFEE CONSUMER NOT TO WASTE COFFEE. ACCORDING TO THE JUNE 29 GAZETA MERCANTIL (SAO
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PAGE 02 BRASIL 05557 061939Z

PAULO), THE PURPOSE OF THE CAMPAIGN IS TO REDUCE DOMESTIC CONSUMPTION IN ORDER TO BE ABLE TO DIRECT MORE COFFEE TO THE EXPORT MARKET DURING THE SECOND HALF OF THE YEAR AND THEREFORE HELP THE COUNTRY'S BALANCE OF PAYMENTS POSITION.

3. THIS CAMPAIGN, HOWEVER, CONTAINS A BASIC INCONSISTENCY: UNDER THE CURRENT IBC MARKETING SCHEME, THE AMOUNT OF COFFEE EXPORTED

IS DIRECTLY CONDITIONED ON THE AMOUNT OF COFFEE SOLD FOR DOMESTIC CONSUMPTION ON A 2 BAGS EXPORT/1 BAG DOMESTIC BASIS (REF). THEREFORE IF THE IBC CAMPAIGN ACTUALLY RESULTS IN LOWER BRAZILIAN DOMESTIC COFFEE CONSUMPTION (THROUGH LESS WASTE), THE AMOUNT OF COFFEE ALLOWED BY THE IBC TO BE EXPORTED WILL IN FACT DECREASE.

4. MANY OBSERVERS FEEL, HOWEVER, THAT THE IBC 2 FOR 1 SCHEME IS BASICALLY UNWORKABLE AND WILL BE ABANDONED SHORTLY. FOR INSTANCE, AT THE ABIC CONFERENCE (SEE PARA BELOW) THE SECRETARY OF AGRICULTURE OF THE COFFEE-PRODUCING STATE OF PARANA PREDICTED THE FAILURE OF THE PLAN. THIS IBC CAMPAIGN, THE, MAY BE AN INDICATION THAT THE 2 FOR 1 SCHEME WILL BE SHORT-LIVED (IT TENTATIVELY GOES INTO EFFECT JULY 1).

5. ANOTHER SUPPORTER OF REDUCED DOMESTIC COFFEE CONSUMPTION IS THE PRESIDENT OF THE BRAZILIAN RURAL (AGRICULTURAL) SOCIETY, SILVIO DE ALMEIDA PRADO.

IN TESTIMONY TO THE BRAZILIAN SENATE AGRICULTURE COMMISSION, HE CALLED FOR THE "SACRIFICE" OF THE BRAZILIAN CONSUMER, "KEEPING IN MIND THAT COFFEE IS NOT A FOOD ITEM; IT IS A DRINK/ A VICE, AND ITS (EXPANDED) EXPORT BRINGS DOLLARS TO PAY OFF THE COUNTRY'S DEBTS (QUOTED IN CORREIO BRAZILIENSE, JULY 1)". ALMEIDA PRADO ALSO CRITICIZED THE SUBSIDY OF DOMESTIC COFFEE PRICES AND CALLED FOR PARITY BETWEEN DOMESTIC AND INTERNATIONAL COFFEE PRICES.

6. ON THE OTHER SIDE OF THE BATTLE IS THE BRAZILIAN COFFEE INDUSTRY ASSOCIATION (ABIC), WHICH IN A RECENT CONVENTION EXPRESSED ITS LIMITED OFFICIAL USE

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PAGE 03 BRASIL 05557 061939Z

DISMAY OVER FALLING BRAZILIAN COFFEE CONSUMPTION AND SUGGESTED THAT THE IBC UNDERTAKE A PUBLICITY CAMPAIGN AIMED AT STIMULATING COFFEE CONSUMPTION IN BRAZIL, PARTICULARLY AMONG CHILDREN AND ADOLESCENTS. ACCORDING TO FIGURES RELEASED DURING THE ABIC CONFERENCE (GAZETA MERCANTIL, JUNE 29), TOTAL COFFEE CONSUMPTION IN BRAZIL DECLINED 28 PERCENT FROM 1971 TO 1976, DESPITE A POPULATION INCREASE OF 13 PERCENT OVER THE SAME PERIOD. PER CAPITA COFFEE CONSUMPTION THEREFORE FELL FROM 5.5 KG. IN 1971 TO 3.4 KG IN 1976.

7. ABIC ATTRIBUTED THE DECLINE IN COFFEE CONSUMPTION TO TWO FACTORS: THE INCREASE IN THE RETAIL PRICE OF COFFEE AND THE FALL IN CONSUMER PURCHASING POWER. THE RETAIL PRICE OF COFFEE HAS SUFFERED A NUMBER OF UPWARD ADJUSTMENTS IN THE LAST SEVERAL YEARS, AND THE CURRENT PRICE IS ABOUT US\$1.90 PER POUND. WHILE THIS (SUBSIDIZED) PRICE IS BELOW THE PRICE CHARGED IN MOST -- IF NOT ALL-- NON-COFFEE-PRODUCING COUNTRIES, IT IS NOT A PARTICULARLY LOW PRICE IN COMPARISON WITH BRAZIL'S PER CAPITA GDP OF SLIGHTLY OVER US\$1,000. IN ADDITION, IT IS WIDELY ACCEPTED THAT WAGES IN BRAZIL GENERALLY HAVE NOT KEPT PACE WITH INFLATION, AND CONSUMER PURCHASING POWER HAS SUFFERED. ABIC RELEASED THE RESULTS OF A STUDY DONE IN GREATER RIO BY THE GALLUP INSTITUTE WHICH SHOWED THAT 7 PERCENT OF THE LOWER INCOME CLASSES DID NOT CONSUME COFFEE AT ALL BECAUSE

IT WAS TOO EXPENSIVE.

8. ANOTHER WORRY OF ABIC IS THAT COFFEE CONSUMPTION WILL ECLINE EVEN FURTHER IN THE FUTURE BECAUSE CHILDREN AND ADOLESCENTS IN BRAZIL ARE NOW GROWING UP DRINKING SOFT DRINKS INSTEAD OF COFFEE AND THAT "WITH THE EFFECT OF HIGHER COFFEE PRICES, THERE IS A GREATER PROBABILITY THAT YOUNG PEOPLE WILL BECOME ACCUSTOMED TO DRINKING BEVERAGES OTHER THAN COFFEE"(GAZETA MERCANTIL, JUNE 29).

9. IT IS INTERESTING TO NOTE THAT THE ABIC CONCERNS PARALLEL THE VIEWS OF CONSUMER AND GOVERNMENT SPOKESMEN IN THE US AND EUROPE. THE GOB CONTINUES TO MAINTAIN, IN SPITE OF MOUNTING EVIDENCE TO THE CONTRRRARY, THAT COFFEE CONSUMPTION IS INELASTIC AND THAT LONG-TERM COFFEE CONSUMPTION WILL NOT BE AFFECTED BY THE CURRENT PERIOD LIMITED OFFICIAL USE

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OF HISTORICALLY HIGH PRICES.
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Message Attributes

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Disposition Date: 22 May 2009
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